August 23, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

Re: Business Combinations (Topic 805) – Accounting for Identifiable Intangible Assets in a Business Combination;
File Reference No. PCC-13-01A

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments to the Financial Accounting Standards Board (FASB) in regard to its proposal on accounting for a business combination. Specifically, FASB, through its Private Company Council (PCC), issued a proposed alternative within U.S. generally accepted accounting principles (GAAP), that would modify the requirement for private companies to separately recognize fewer intangible assets acquired in a business combination. By way of background, CUNA is the largest advocacy organization in the country for state and federal credit unions, which serve over 97 million members.

CUNA’s Views on the Proposal

We strongly support FASB’s and the PCC’s efforts to simplify reporting for private entities, particularly in areas where the associated costs outweigh the benefits to the reporting entity and the users of their financial statements. The primary users of credit unions’ financial statements are the National Credit Union Administration (NCUA)—the prudential regulator of federally chartered credit unions and insurer of most state and all federally chartered credit unions—and state credit union regulators. The financial statement users of a credit union are so very different from those of a bank, including both public and private.

As FASB and the PCC continue their work in this area, it is critical to understand the unique nature of credit unions, which are member-owned, not-for-profit financial cooperatives. Among the reasons credit unions are unique from other financial institutions is that under the Federal Credit Union Act net worth is limited to retained earnings only. This statutory limitation restricts the ability of the NCUA to adjust its regulations in response to changes in accounting standards, as is possible for other federal financial regulators.
Scope

The proposed accounting alternative would be available to an entity that is required to apply the acquisition method under Topic 805, Business Combinations, which includes credit unions. The accounting alternative, if elected, would apply to all business combinations entered into after the effective date.

We generally support the scope of the proposal. We believe the types of entities noted in the proposed scope are appropriate, as are the transactions and accounts, which are referenced in the proposal. In response to FASB’s inquiry in the proposal, we likely would not be opposed to expanding the proposed scope to other entities, such as those falling within FASB’s definitions of “publicly traded company” and “not-for-profit entity.”

Primary Provisions of the Proposed Alternative

The proposed amendments would provide guidance about an accounting alternative for the recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination. An entity within the scope of the proposed amendments that elects the accounting alternative would recognize separately from goodwill only those identifiable intangible assets that arise from contractual rights with noncancelable contractual terms, or that arise from other legal rights, whether or not those intangible assets are transferable or separable.

Identifiable intangible assets that arise from contractual rights would be measured using the fair value measurement principles of Topic 820 except that the measurement only would consider market participant assumptions about the remaining noncancelable term and, therefore, would not consider any potential contractual renewals or cancellations that ordinarily would be considered in determining the fair value of that contract.

We believe the amendments in this proposal would likely reduce cost and complexity by providing an entity with an accounting alternative to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights. We agree that the proposed amendments generally would result in entities recognizing fewer intangible assets in a business combination than under current GAAP because not all identifiable intangible assets would be recognized separately, as is currently required.

We support the proposal, as we believe the alternative recognition, measurement, and disclosure guidance would continue to provide decision-useful information to the users of private company financial statements, while reducing the cost and complexity associated with the valuation of certain identifiable intangible assets.
Effective Date

The accounting alternative for identifiable intangible assets would be effective prospectively for all business combinations entered into during fiscal years, and interim periods within those years, beginning on or after the effective date. We support prospective application of the alternative. However, we do not support retrospective application due to the associated complexities for covered entities that backward-looking implementation would require.

While the proposal does not include an effective date, we believe it should be effective as soon as practical, particularly since application is at the discretion of the reporting entity. Further, we believe early application of the alternative should be permitted.

Definition of a Public Business Entity

In a subsequent comment letter, we will be providing FASB detailed input on its August 7 proposed accounting standards update that would define a “public business entity.”

Thank you for the opportunity to express our views on the FASB’s proposed alternative accounting for private entities in a business combination. If you have any questions about our comments, please do not hesitate to contact CUNA Deputy General Counsel Mary Dunn at (202) 508-6736 or me.

Sincerely,

Luke Martone
Senior Assistant General Counsel